

Kentucky Agriculture Finance Corporation

Meeting Minutes

June 13, 2003

The Kentucky Agriculture Finance Corporation met at 9:00am on June 13, 2003 in the Old Capitol Annex in Frankfort, Kentucky.

Members Present:

Ms. Jane Jones; Ms. Sandy Ross; Dr. Harold Benson; Ms. Annette Crawford Walters; Mr. Wayne Hunt; Mr. Bob D. Proffitt; Commissioner Billy Ray Smith; Mr. Billy Joe Miles; Mr. Billy Hurd; Mr. Doug Lawson

Members Absent:

Mr. Gordon Duke; Mr. Charles Miller

Governor's Office of Agricultural Policy Staff Present:

David Bratcher; Gene Royalty; Joel Neaveill; Edith Fultz

Guests:

Mr. Mark Farrow, General Council Kentucky Department of Agriculture
Ms. Ann Stewart, Kentucky Department of Agriculture

Commissioner Billy Ray Smith - announced that the press was notified of this meeting and asked the secretary to call the roll.

Commissioner Smith – welcomed everyone to the meeting and entertained a motion for approval of the Minutes of the April 16th meeting. Mr. Billy Hurd made a motion to approve; Dr. Harold Benson seconded the motion. The minutes were approved.

Commissioner Smith - told us that John-Mark Hack has tenured his resignation as the Executive Director of the Governor's Office of Agricultural Policy (GOAP) with June 15th being his last day. He announced that the Governor has named Gene Royalty to serve as interim Director.

Gene Royalty – told us that he has agreed to accept this position until the new Governor is inaugurated. He commented that he is going to attempt to keep this program going in as good a direction as possible until that time. He voiced hopes that the new

administration will see fit to continue to make these funds available. He also expressed concerns of maintaining staff until that time and commented on the difficulty of starting over with new people. He also commented that he feels very strongly that the Kentucky Agriculture Finance Corporation (KAFC) is going to play a key role in the success of the Agricultural Development Board (ADB) and the entire group in the next six months. He thanked the members for agreeing to serve on this board and expressed hopes that the program will continue into the new administration.

Annette Crawford Walters - questioned if there is anything the ADB can do to make sure that the candidates are aware of what they are doing and the importance of their work to the Commonwealth. Mr. Royalty responded that the Governor's Commission on Family Farms is preparing a letter that they are sending to both gubernatorial candidates and some members of the legislature expressing what both of these entities mean to Kentucky agriculture and farm families. Wayne Hunt commented that the Governor doesn't control the fund, but he does control the staff. He stated further that they had tried to move the KAFC and staff into the Finance Cabinet but did not accomplish that. He commented further that the accomplishments of this group are self-explanatory and offered a diagram of how we got to this point. He stated that we should make an effort to tie these two groups together. Commissioner Smith stated that ultimately the legislature controls the fund. He expressed the importance of individuals contacting their local senators and representatives in support of the program.

David Bratcher expressed concern of the continuity of the program. He explained that the GOAP was not created as an Executive Branch by Executive Order. He told us it is something the Governor's office created and can be disassembled very quickly when the new Governor comes in.

He commented that we have considered the idea of moving the GOAP staff to the KAFC and having the KAFC be the entity that contracts with the ADB for staffing so that those folks are out of the Governor's payroll and on the payroll of the KAFC. There has not been any action taken. Part of that is a function of where we go with this application and where the ADB and the General Assembly members see the roll of the KAFC moving forward.

He explained that there is an Oversight Committee that was established in HB611 that was to be comprised of members of both the House and the Senate. For the first two years of the Tobacco Settlement Fund the Senate members were not appointed. There was a change in the law this past session that accommodated some of the concerns that the Senate had. That combined Oversight Committee of the House members and the Senate members are now meeting. They have had two meetings.

He told us that we have discussed submitting this application to the ADB subject to KAFC approval. The Oversight Committee would like to have a lot of input before the ADB acts on it. We will be talking to them about where they see the KAFC fitting in. We don't want to move personnel into an entity when the General Assembly members are telling us that down the road they see a different role or no role for the KAFC. He

referenced Commissioner Smith's comments of all of this being created by General Assembly acts and that they can just as easily disassemble this entity. He commented that we have not found any lack of support among General Assembly members for the ADF, but we are coming into 2004 with a very tight budget. He mentioned the portion taken from the ADF for rural water lines and comments made by committee members referencing next year.

Mr. Bratcher - presented the application to the board and opened the floor for discussion. Commissioner Smith - asked him for a general outline. Mr. Bratcher - offered that outline explaining that this application will allow us to take Agricultural Development Funds and invest them. He told us that the statute gives us the authority to make investments. He explained further, referencing the application provided.

Billy Hurd – asked if down the road we could pursue the Link Deposit program and the Capital Access program. Mr. Bratcher responded that the agricultural component of the Link Deposit program still resides in the Kentucky Department of Agriculture (KDA) and will remain there until there is a change in the statute. He explained how the Link Deposit program works and asked Sandy Ross if this is a best customers program. Ms. Ross - responded saying, yes definitely.

Commissioner Smith - asked about the abandoned property funds and if that source would dry up if the program is moved to the KAFC. Mr. Bratcher responded no and told us that the fund may dry up from the KAPT program. He explained that program further. Mr. Bratcher asked Mark Farrow how much money is still in the Link Deposit program. Mr. Farrow referred to Gene Royalty who told us that as of the last report there was approximately \$3 million of that fund unencumbered. There was some further comments and group discussion. Mr. Bratcher told us that the statute that sets up the Link Deposit Program makes specific reference to the unclaimed property.

Mr. Hunt - offered comments on how the ADB might address this application and how we might utilize the funds through loans. He told us we might build a revolving fund in this state that might yield millions of dollars over time. Mr. Bratcher explained further telling us that the ADB might want to move existing loans to the KAFC. Mr. Hunt commented further and mentioned the county funds. Commissioner Smith - asked about county model projects and getting different counties working together. Mr. Bratcher offered explanation of existing programs and gave an example of the Heifer Development Program in Harrison County. There was some board discussion. Mr. Bratcher explained further with suggestion of the KAFC policing the program. Billy Joe Miles commented that this has to become simple and it must increase the money. He asked how could we leverage it. Annette Crawford Walters asked if a note would be intangible property. David Bratcher responded yes, but we have the ability to make the loan so we have the ability to own a note. He explained further. Mr. Miles asked if it is possible for FHA or FSA to have a new pilot project where we could work with them so we will have someone to leverage this with. Mr. Bratcher suggested that we work with FSA and mentioned Jeff Hall in particular. He explained further and told us that FSA also has a direct loan program in addition to the guarantee program. He told us that

their direct loan money is going at 3-¾% right now for 15 years on some loans. Mr. Miles made a motion for us to write a letter to lending agencies about how to leverage funding for a new pilot program that is simple and innovative that we can leverage that fits our legal entity so that we can have someone that will be our partner in a new simple program. Bob Proffitt seconded the motion. There was comments and group discussion. Commissioner Smith called for the vote. The motion passed.

Mr. Bratcher - told us that we would like to present this application to the ADB today for their review during the month of July, recognizing that between now and the project review in July there will be some dialogue that we need to have with the Oversight Committee. He questioned how the ADB might react to the \$20 million amount requested. Commissioner Smith asked if maybe it would be better to know what is on the books with the ADB at this time. Mr. Bratcher told us that amount is around \$4.2 million. He explained further and told us about some forgivable loans. Billy Hurd questioned if the administration of these funds will be doable. Mr. Bratcher told us that it is depending on what happens with the GOAP and explained that the GOAP staff may be involved, but will not be doing much of the credit analysis. He told the group they may want to establish thresholds. There was comments and group discussion.

Doug Lawson – suggested that we do larger loans to attract processors to the state and he told us that the First Time Farmer loan program through FSA does work. He told us that preferred lenders with FSA has very little paperwork.

Mr. Bratcher - announced that this application will be presented to the ADB next Friday and explained that we need to authorize Commissioner Smith to sign the application to be submitted.

Mr. Miles – commented on the critical time frame we have to work in.

Commissioner Smith – commented on the regulatory process and amendments or changes to regulation that has to be approved by the General Assembly before we can go forward. Mr. Bratcher responded that everything in this application can be done under existing law with the organization as it exist today with no changes to the statute whatsoever.

Mr. Lawson - suggested that we become money managers. Get the funds and staff in place to administer the program. Mr. Bratcher responded that we will have to write some regulations and go through the regulatory process, but he sees no reason for us to slow down. There was some further group comments and discussion.

Mr. Lawson - recommended that we go ahead and establish staff for this program. Mr. Bratcher told the board that they might want to develop a committee to go ahead and hire an Executive Director. Mr. Miles offered comments on the importance of this program to farmers in Kentucky and made a motion to pursue this application and present it to the ADB. Mr. Proffitt seconded the motion. There was further comments and group discussion. Mr. Hunt asked if we see the ADB having authority to approve

what we would do with the funds. Mr. Bratcher responded no. He explained that we would be held to what is in the grant agreement and we would report to the ADB. There were some further comments and questions by the group. Commissioner Smith called for the vote. The motion passed.

Mr. Miles - suggested assigning committees. Mr. Bratcher told us that his preference would be to ask Doug Lawson to Chair the Promotion Committee. Mr. Lawson asked if Mr. Bratcher would get together a description of what his vision is for each committee. Mr. Bratcher agreed and told the group this could be postponed until the next meeting.

Next Meeting Date:

The next meeting is scheduled for 9:30 am on July 8, 2003

Adjourn:

The meeting adjourned at 11:50am